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C O N F I D E N T I A L SECTION 01 OF 02 SARAJEVO 001498

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TAGS: [ECON](#) [ENRG](#) [PREL](#) [PINR](#) [PGOV](#) [EU](#) [BK](#)
SUBJECT: BOSNIA: TACTICAL VICTORY ON TRANSCO LEADS TO A
LONG ROAD TO REFORM

REF: SARAJEVO 1459

Classified By: Classified by Ambassador Charles English
for reasons 1.4 B,D

¶1. (C) Summary: On Monday, September 15, in a bait and switch rarely seen in functioning European governments of the 21st Century, the RS Government substituted a "new" conclusion on the state electricity company Electroprenos (TRANSCO) for the one it had previously announced after its September 11 session. The original conclusion announced RS plans to withdraw from TRANSCO -- a move that would have amounted to the RS unilaterally reclaiming a previously transferred competency and undoing a reform required for the signing of the Stabilization and Association Agreement (SAA). The RS Government claimed the earlier conclusion was an "incorrect version". The turnabout likely resulted from the strong statements coming from the international community, specifically statements from the PIC Ambassadors, the EC, the US and the French Ambassador on behalf of the EU (reftel). The new document concluded that "almost all possibilities" for addressing RS concerns about TRANSCO had been exhausted, but left the door open for negotiations. Nevertheless, the September 15 document contained provisions that strongly suggest the RS still intends on withdrawing from TRANSCO.

¶2. (C) Summary Continued: At the September 19 SBA meeting, High Representative Lajcak and the Ambassadors agreed that the OHR would 1) take note of the new conclusion; 2) announce the international community's readiness to facilitate discussions between the RS and the Federation on resolving issues associated with TRANSCO's management and other problems, and 3) reiterate the PIC's earlier warning that an entity cannot withdraw unilaterally from a previously agreed competency transfer or reform. Separately, we are working with the EC and OHR to develop a strategy for turning Dodik's tactical retreat into a strategic victory for the IC. A key point will be keeping the OHR and the EC politically engaged on this issue for the long haul. End summary.

BAIT AND SWITCH -- NEW CONCLUSION

¶3. (C) On Monday, September 15, the RS Government handed us (and sent to OHR's Banja Luka office) a new "conclusion" to the RS Government's meeting on September 11. RS Minister of Economics, Energy and Development Puhalic complained to Econoff that the

international community based its Friday statements on the "unofficial conclusion" and that the new one was the correct one. The new conclusion is different, noting in paragraph two the readiness of the RS Government to continue to discuss issues with TRANSCO in the hopes of resolving them (the first conclusion did not even mention a negotiating option). The key word "almost" was also added to this second conclusion, going from "we have completely exhausted all possibilities to find a resolution" to "we have completely exhausted almost all possibilities". Puhalic noted that this was not a revocation (as the PIC had demanded), but simply the final official version of the conclusion. He explained that he personally would never advocate revoking the RS conclusion because, in his opinion, the best thing to do would be to liquidate the company.

OHR ANALYSIS AND RECOMMENDATIONS - IC MUST CONTINUE
PRESSURE FOR NEGOTIATIONS

14. (C) The Ambassador met with EC Ambassador Kourkulos and High Representative Lajcak before the Peace Implementation Council Steering Board Ambassadors (SBA) Meeting. They all agreed that the international community should play a key role in directing negotiations over TRANSCO's operations and turning it into a viable, state-managed institution. In the SBA Meeting, Lajcak presented OHR's analysis of the new conclusion, confirming that the RS Government validated

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the new document at its September 18 session. The OHR press statement to follow will note that the international community will remain engaged with local leaders to ensure positive negotiations, ultimately leading to an effective, state-managed company. Lajcak noted that the new statement still mentions the RSG's intentions to liquidate TRANSCO if the negotiations are unsuccessful, which would be in violation of the PIC's warning against unilaterally withdrawing from a previously agreed reform.

COMMENT

15. (C) Although the RS Government's new conclusion is clearly a step back in response to the strong international reaction to its initial statements on withdrawing from TRANSCO, there is no time to rejoice in this tactical victory. The hardest work is ahead of us. It is essential that we maintain the pressure on the two entities, at both the Prime Minister and Minister of Energy level, to negotiate a settlement that will transform TRANSCO into a viable state entity, and that we foil Dodik's attempt to unilaterally reclaim a competency and, in effect, undo a SAA-mandated reform. We will need action on both political and technical levels to succeed; specifically high-level political pressure from OHR, the EC and the US as well as technical assistance in creating a guideline for the negotiations and dealing with the specific details of the transformation, ensuring that everything is done within the EU Energy Treaty guidelines. If we fail, Dodik will have successfully opened the door to unilaterally reclaim other competencies, while simultaneously setting a precedent that the RS can rewind and undo previously agreed reforms required as a part of the EU accession process.

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